Audit Report

OFFICE OF THE INSPECTOR GENERAL

CASH ACCOUNTABILITY IN THE DEPARTMENT OF DEFENSE, DISBURSING AND CHANGE FUNDS MAINTAINED AT CAMP LEJEUNE, NORTH CAROLINA

Report No. 95-055 December 12, 1994

Department of Defense

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Acronyms

DAO	Defense Accounting Office
DFAS	Defense Finance and Accounting Service

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

December 12, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp Lejeune, North Carolina (Report No. 95-055)

We are providing this final report for your information and use. It discusses public funds held outside the U.S. Treasury, which caused interest expenses to be incurred unnecessarily. Comments on a draft of this report were considered in preparing the final report.

Comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and there are no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. If you have any questions about this audit, please contact Mr. F. Jay Lane, Program Director, at (703) 604-9140 (DSN 664-9140), or Mr. Dennis L. Conway, Project Manager, at (703) 604-9158 (DSN 664-9158). The distribution for this report is in Appendix D. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 95-055 **December 12, 1994**
(Project No. 3FG-2019.12)

CASH ACCOUNTABILITY IN THE DEPARTMENT OF DEFENSE, DISBURSING AND CHANGE FUNDS MAINTAINED AT CAMP LEJEUNE, NORTH CAROLINA

EXECUTIVE SUMMARY

Introduction. This report is part of our audit of cash accountability within the Department of Defense. We audited two disbursing funds and two change funds of the Defense Accounting Office, Camp Lejeune, North Carolina. As a result of conditions noted during our audit of those funds, we expanded our scope to include an examination of funds provided by DoD disbursing offices to military exchanges during each of the 24 military pay periods for the purpose of cashing checks. Our initial review of those funds disclosed that the practice was limited to disbursing offices of the Navy and the Marine Corps. Accordingly, we analyzed the financial records of 59 disbursing offices whose total accountability amounted to $62.6 million. That amount represented nearly one-third of the $193.6 million in cash and related assets at all of the Navy and Marine Corps disbursing offices. We also reviewed change funds amounting to $4.4 million provided by DoD disbursing offices to the Defense Commissary Agency.

Objectives. The objectives of the audit were to verify accountability for cash and related assets; evaluate the adequacy of procedures used to determine the accuracy of records used to support cash accountability at DoD accounting offices with imprest funds; assess compliance with applicable laws and regulations; and evaluate management's implementation of an Internal Management Control Program as it pertains to the audit objectives.

Audit Results. Our surprise audit of the disbursing and change funds disclosed that cash on hand and related assets such as checks and food stamps agreed with accountability records. However, contrary to United States Code, title 31, section 3302 (31 U.S.C. 3302), public funds were held outside the U.S. Treasury, which caused interest expenses to be incurred unnecessarily. Audit results further disclosed that those conditions were not isolated to the Defense Accounting Office at Camp Lejeune, North Carolina.

o Twelve disbursing offices had improperly issued exchange-for-cash checks totaling $10.9 million to Navy and Marine Corps exchanges for the purpose of cashing checks during each of the 24 military pay periods (Finding A).

o Disbursing offices erroneously provided change funds totaling $4.4 million to the Defense Commissary Agency (Finding B).

As a result of those practices, we estimate that the U.S. Treasury has incurred interest expenses totaling $0.8 million since August 1987. Further, if those practices continue, we estimate the U.S. Treasury will incur another $2 million in interest expenses during the next 6 years.

Internal Controls. Physical and procedural measures taken by the Camp Lejeune disbursing officer to safeguard the accessibility of cash were appropriate. Material internal control weaknesses existed within the system of controls over exchange-for-cash services and commissary change funds. Specifically, disbursing offices improperly provided funds to Navy and Marine Corps exchanges. Also, DoD disbursing offices erroneously provided change funds to the Defense Commissary Agency. Part I discusses the internal controls reviewed, and Part II contains details on the weaknesses.

Potential Benefits of Audit. Recommendations in this report, if implemented, will ensure compliance with 31 U.S.C. 3302 and prevent further unnecessary interest expenses totaling $2 million. See Appendix B for a breakdown of that monetary benefit and other benefits associated with this audit.

Summary of Recommendations. We recommended that the DFAS immediately discontinue providing exchange-for-cash services, withdraw change funds held by the Defense Commissary Agency, and delete the requirement for disbursing officers to provide commissary change funds from DoD Regulation 7000.14-R, volume 5.

Management Comments. We provided a draft of this report to management on September 12, 1994. Comments from the Deputy Director for Finance, Defense Finance and Accounting Service, were received on November 16, 1994. The Deputy Director agreed with the findings and recommendations stating that action has been taken to discontinue providing exchange-for-cash services and transfer accountability for commissary change funds to the Defense Commissary Agency stock fund accounts. The Deputy Director also agreed to make the recommended changes to DoD Regulation 7000.14-R, volume 5. The Deputy Director's comments are reproduced in Part IV.

Follow-up discussions with the Director of the Disbursing Procedures and Guidance Division within the Office of Disbursing Management, Headquarters, Defense Finance and Accounting Service, disclosed that management also agreed with the estimated monetary benefits.

Table of Contents

This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

Accountability for Public Funds. Within the Department of Defense, disbursing officers are entrusted with and accountable for public funds, whether on hand with agents, with cashiers, or in depositories. Those officers are responsible for maintaining appropriate cash, negotiable instruments, and other documents comprising accountability and to present such to authorized personnel for verification at any time.

The disbursing officer at the Defense Accounting Office (DAO), Camp Lejeune, North Carolina, was accountable for public funds totaling $1,065,000. Of that amount, the disbursing officer had authority to hold up to $1.0 million for the purpose of issuing exchange-for-cash checks. The remaining $65,000 represented actual cash on hand made up of the following disbursing, imprest, and change funds.

Disbursing Funds. Agents of the disbursing officer were authorized to maintain three disbursing funds not to exceed $35,000 in total at the disbursing offices at Camp Lejeune, North Carolina; New River Marine Corps Air Station, North Carolina; and Camp Elmore, Virginia.

Imprest Fund. An agent located at Camp Elmore, Virginia, was responsible for a $3,000 imprest fund under the disbursing officer's authority.

Change Funds. Agents and cashiers of the disbursing officer were maintaining change funds at the Camp Lejeune commissary ($22,000), New River Marine Corps Air Station commissary ($4,000), Camp Lejeune telephone office ($600), and Camp Lejeune housing office ($150).

Issuing Exchange-for-Cash Checks. Although canceled and replaced in December 1993 by DoD Regulation 7000.14-R, "Disbursing Policy and Procedures," Navy Comptroller Manual, volume 4, outlined specific procedures for the Navy and the Marine Corps disbursing offices to follow when issuing exchange-for-cash checks. To compensate for increased demands on cash during each of the 24 military pay periods, disbursing officers provided funds to the installations' exchange officers for cashing checks. Disbursing officers and exchange officers exchanged checks of equal amounts on the last day before each pay period. The exchange officers immediately deposited the checks; however, the disbursing officers held the exchanges' checks until the first business day after the end of the pay period. To implement those procedures, disbursing officers and exchange officers, such as those at Camp Lejeune, established agreements outlining time periods and amounts to be exchanged. DoD Regulation 7000.14-R, however, prohibits issuing exchange-for-cash checks if satisfactory banking facilities exist.

Objectives

The objectives of the audit were to:

o verify accountability for cash and related assets,

o evaluate the adequacy of procedures used to determine the adequacy of records used to support cash accountability at DoD accounting offices with imprest funds,

o assess compliance with applicable laws and regulations, and

o evaluate management's implementation of an Internal Management Control Program as it pertains to the audit objectives.

Scope and Methodology

This financial related audit was conducted at the DAO, Camp Lejeune, North Carolina, Disbursing Station Symbol Number 5190. We initially planned to conduct unannounced cash counts of the funds comprising the disbursing officer's $1,065,000 authority. However, as a result of exchange-for-cash checking and prior day business transactions, actual cash on hand totaled $35,882. Of that amount, we made unannounced cash counts on June 7, 1994, of two disbursing funds amounting to $6,132 and two change funds totaling $26,000. As a result of plans to eliminate the $3,000 imprest fund at Camp Elmore, Virginia, we did not audit that fund. We also did not evaluate the $600 telephone and $150 housing change funds at Camp Lejeune, North Carolina, due to a lack of time and resources and the funds' low dollar amounts.

In addition, we observed physical controls over cashiers' areas and reviewed procedural controls over security including the opening and closing of safes.

As a result of conditions noted during our audit of the DAO at Camp Lejeune, North Carolina, we expanded the scope of our audit to include a review of exchange-for-cash services and commissary change funds throughout the DoD.

Exchange-for-Cash Services. Initial audit work disclosed disbursing offices provided exchange-for-cash services to Navy and Marine Corps exchanges. Accordingly, we analyzed the financial records of 59 disbursing offices whose total accountability amounted to $62.6 million. That amount represented nearly one-third of the $193.6 million in cash and related assets at all of the Navy and the Marine Corps disbursing offices.

Commissary Change Funds. Disbursing officers throughout the DoD were providing change funds to the Defense Commissary Agency. Therefore, we reviewed approximately $4.4 million in change funds shown in Headquarters, Defense Finance and Accounting Service (DFAS), financial records.

This audit was completed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense, and accordingly included such tests of internal controls as were considered necessary. No computer-processed information or statistical sampling was involved. Organizations visited or contacted, listed in Appendix C, were limited to the sites where funds were located.

Internal Controls

Our evaluation disclosed that cash on hand and related assets such as checks and food stamps agreed with accountability records. However, material internal control weaknesses over exchange-for-cash services and commissary change funds were identified. Specifically, the disbursing office at Camp Lejeune improperly issued exchange-for-cash checks to the Marine Corps exchange (Finding A) and erroneously provided change funds to the Defense Commissary Agency (Finding B). We noted those conditions were not isolated to the disbursing office at Camp Lejeune, North Carolina.

The disbursing officer at Camp Lejeune identified those conditions as part of the DoD Internal Management Control Program. However, the DFAS Kansas City Center directed disbursing offices to continue providing those services. All recommendations, if implemented, will correct the internal control weaknesses.

The monetary benefits that can be realized by implementing the internal control related recommendations are described in Appendix B.

Conversely, during our evaluation of physical controls over the cashiers' areas and procedural controls over security, the internal controls were generally adequate.

- o Access to cash collection areas was limited to essential personnel.
- o Separate safes were provided to each cashier.
- o Combinations were changed as required.
- o Alarm systems were tested regularly.

Otherwise, actions taken to comply with the DoD Internal Management Control Program were adequate as prescribed by DoD 5010.38, "Internal Management Control Program," April 14, 1987. A copy of the report will be provided to the senior officials responsible for internal controls within the Defense Finance and Accounting Service.

Prior Audits and Other Reviews

In addition to quarterly unannounced cash verification audits, the DFAS Kansas City Center conducted an audit of the cash handling procedures at the DAO at Camp Lejeune during November 1993. Report No. 94-12, "Internal Review of DAO Camp Lejeune, North Carolina," March 9, 1994, identified material weaknesses over cash operations and separation of duties. Specifics follow.

Cash Operations. The report disclosed that the DAO at Camp Lejeune was improperly issuing exchange-for-cash checks to the Marine Corps exchange for use by the exchange in cashing checks. That practice was still in place. When questioned, the disbursing officer indicated that Navy Comptroller Manual, volume 4, Section 08, "Exchange-For-Cash Checks," January 1991, permitted the practice and that unless further guidance was issued and the DFAS Kansas City Center implemented policy changes with Headquarters, Marine Corps, existing procedures would be followed.

In addition, the DFAS audit results showed that the imprest fund at Camp Elmore, Virginia, was unneeded and, therefore, could be eliminated. Eliminating the fund is possible because a Government credit card is available and being used at Camp Elmore by the same activity possessing the fund. During our review, we noted that nearly 6 months had passed, yet the $3,000 imprest fund still existed. The disbursing officer indicated that as soon as the DFAS Kansas City Center's final report was issued, they would eliminate the fund.

Separation of Duties. The DFAS draft report also indicated a clear separation of duties did not exist in handling negotiable instruments from the time they were received until they were deposited. That finding indicated that a material internal control weakness existed because one person was allowed to receive negotiable instruments, prepare deposit slips, and record items deposited. We found, however, that the disbursing officer had implemented additional checks and balances to compensate for that condition. Specifically, two clerks using different procedures verified each agent's balance sheet and related documentation prior to their review by the accounting supervisor and approval by the disbursing officer.

The disbursing officer at Camp Lejeune agreed with the findings and recommendations.

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Part II - Findings and Recommendations

Finding A. Exchange-for-Cash Services

Disbursing offices improperly issued exchange-for-cash checks to Navy and Marine Corps exchanges during each of the 24 military pay periods for the purpose of cashing checks. Of the 59 disbursing offices contacted, accountability records for May 1994 showed that 12 offices provided exchange-for-cash services totaling $10.9 million. That condition occurred because disbursing offices were following Navy Comptroller guidance designed to provide convenient check cashing services for Navy and Marine Corps members. In addition, at the direction of the Defense Finance and Accounting Service (DFAS) Kansas City Center, disbursing offices continued to provide such services after the Navy guidance had been canceled. Discussions with DFAS personnel revealed that any change in the practice of exchanging checks would have been viewed as a degradation of service provided to Navy and Marine Corps personnel. As a result of the DFAS providing the exchange-for-cash services, the U.S. Government had incurred in excess of $0.1 million in interest expenses since August 1987. If the practice is allowed to continue, a minimum interest expense of $0.6 million will be incurred during the next 6 years.

Background

Use of Public Funds. United States Code, title 31, section 3302(a) (31 U.S.C. 3302[a]), "Custodians of money," requires that:

> ". . . an official or agent of the U.S. Government having custody or possession of public money shall keep the money safe without . . . lending the money."

In addition, 31 U.S.C. 3302(b), requires that:

> ". . . an official or agent of the Government receiving money for the Government from any source shall deposit the money in the Treasury as soon as practicable . . ."

Exchange-for-Cash Services. During each of the 24 military pay periods, demands on cash at Navy and Marine Corps exchanges increase in order to cash checks for Service members. Because the Navy and the Marine Corps exchanges do not want to compensate for that increased demand, disbursing officers and exchange officers exchange checks on the last banking day before the end of each pay period. The exchange officers immediately deposit the checks; however, the disbursing officers hold the checks until the Navy and Marine Corps exchange officers have deposited checks they have cashed for Service members into exchange accounts. That sequence takes place no sooner

than the first business day after the end of the pay period. The practice greatly increases the Navy and the Marine Corps exchanges' cash balances for the days prior to the time the disbursing officers deposit the checks from the exchange officers. Providing exchange-for-cash services to the Navy and the Marine Corps exchanges increases the amount of funds held outside the U.S. Treasury causing interest expenses to be incurred unnecessarily.

Providing Exchange-for-Cash Services

Disbursing offices improperly issued exchange-for-cash checks to Navy and Marine Corps exchanges during each of the 24 military pay periods for the purpose of cashing checks. Of the 59 disbursing offices contacted, accountability records for May 1994 showed that 12 offices provided exchange-for-cash services totaling $10.9 million. Appendix A shows details.

Those conditions occurred because disbursing offices of the Navy and the Marine Corps were following Navy guidance directed at providing convenient check cashing services to its personnel. "Navy Comptroller Manual," volume 4, however, erroneously cited 31 U.S.C. 3342a(2) as support for allowing disbursing offices to provide exchange-for-cash services. Section 3342a(2) of 31 U.S.C. discusses exchange transactions between U.S. currency, coins, and negotiable instruments and those of a foreign country. By permitting disbursing offices to provide exchange-for-cash services, the Comptroller of the Navy did not comply with the spirit and intent of 31 U.S.C.

Further, DoD Regulation 7000.14-R, volume 5, "Disbursing Policy and Procedures," December 1993, canceled "Navy Comptroller Manual," volume 4, on December 16, 1993. The new guidance prohibited issuing exchange-for-cash checks if satisfactory banking facilities exist. Despite the new guidance and the findings identified in November 1993 by its own Internal Review Office, the DFAS Kansas City Center directed disbursing offices to continue providing those services. Continuing the practice of exchanging checks was considered necessary to prevent a decrease in the level of check cashing services provided to Navy and Marine Corps personnel. Also, there was no evidence showing the DFAS Cleveland Center had addressed the issue after the cancellation of the Navy manual.

The Navy and Marine Corps actions resulted in funds being held outside the U.S. Treasury for extended periods of time. For example, using the support agreement dated August 1987, we estimate the Marine Corps exchange at Camp Lejeune had held up to $1 million outside the U.S. Treasury for approximately 60 days in total each year, which cost the U.S. Government at least $0.1 million in interest expenses. Due to the lack of available support agreements and other related documentation, we could not determine how long the remaining disbursing offices had been exchanging checks. However, discussions with several disbursing officers indicated that this practice could have taken place as early as 1982.

As a result, we conservatively estimate that the interest expense associated with providing the exchange-for-cash services cost the U.S. Government at least $0.1 million. Further, if the practice is allowed to continue, we estimate that a minimum interest expense of $0.6 million will be incurred during the next 6 years.

Corrective Actions Taken By the DFAS

The Navy and Marine Corps noncompliance with 31 U.S.C. 3302 was identified in November 1993 by the DFAS Internal Review Office. However, not until May 1994 did the Deputy Director for Finance, Headquarters, DFAS, issue a memorandum directing disbursing offices to discontinue providing exchange-for-cash services not later than June 30, 1994. Subsequent memorandums from the DFAS Kansas City Center and the DFAS Cleveland Center revised the date to September 30, 1994. As a result of those delays, we have no assurance that the practice of exchanging checks with Navy and Marine Corps exchanges will be stopped.

Immediate action should be taken to discontinue the described practice. The U.S. Government will continue to incur interest expenses until the practice is stopped.

Recommendation, Management Comments, and Audit Response

We recommend that the Director, Defense Finance and Accounting Service, discontinue providing exchange-for-cash services to Navy and Marine Corps exchanges.

DFAS Comments. The Deputy Director for Finance, DFAS, concurred with the recommendation and stated that action had been completed. Follow-up discussions with the Director of the Disbursing Procedures and Guidance Division within the Office of Disbursing Management, Headquarters, Defense Finance and Accounting Service, disclosed that the practice of providing exchange-for-cash services to Navy and Marine Corps exchanges was discontinued on September 30, 1994. Those discussions further disclosed that management agreed with the $0.6 million estimated monetary benefit.

Audit Response. Management comments were fully responsive.

Finding B. Commissary Change Funds

Disbursing offices throughout the Department of Defense erroneously provided change funds amounting to $4.4 million to the Defense Commissary Agency. That occurred because disbursing offices followed Headquarters, DFAS, and DoD guidance that did not comply with 31 U.S.C. 3302. As a result of those funds being held outside the U.S. Treasury, unnecessary interest expenses totaling $0.7 million were incurred during a 3-year period. If the practice continues, the U.S. Government will incur a minimum of $1.4 million of interest expenses during the next 6 years.

Background

Prior to the establishment of the Defense Commissary Agency in 1991, disbursing offices provided change funds to commissaries that deposited proceeds from their sales into disbursing officers' U.S. Treasury accounts. Change funds that provide cash for making change were considered necessary for the efficient and economical operation of the commissaries. However, since the establishment of the Defense Commissary Agency in October 1991, commissaries no longer deposit receipts into disbursing officers' accounts. Rather, receipts are deposited into revolving and trust fund accounts.

Use of Change Funds

Disbursing offices throughout the Department of Defense followed erroneous guidance from Headquarters, DFAS, and the Department of Defense when they provided change funds amounting to $4.4 million to the Defense Commissary Agency. That occurred because the disbursing offices followed Headquarters, DFAS, guidance that did not comply with 31 U.S.C. 3302. Section 3302 of 31 U.S.C. prohibits an official or agent of the U.S. Government having custody of public funds from lending such funds.

As late as March 1993, the Deputy Director for Finance, DFAS, issued a memorandum requiring disbursing officers to continue providing change funds to the Defense Commissary Agency. Also, in December 1993, the DFAS Office for Disbursing Procedures and Guidance published DoD guidance that authorized the use of commissary change funds. DoD Regulation 7000.14-R, volume 5, "Disbursing Policy and Procedures," December 1993, requires that:

"The DO [disbursing officer] . . . providing disbursing service to the installation or activity where the (commissary) is located shall provide the authorized change fund advance. This requirement applies whether the (commissary) deposits proceeds of sales to the DSSN [Disbursing Station Symbol Number] of the local DO or to the DSSN of a regional DO."

DFAS Action to Withdraw Funds

The DFAS Kansas City Center presented an action memorandum in June 1994 to the Deputy Director for Finance, Headquarters, DFAS, recommending the withdrawal of change funds totaling $4.4 million from the Defense Commissary Agency. The memorandum estimated that withdrawal of those funds would save the U.S. Government approximately $170,000 in annual interest payments.

Further, the memorandum states that the Defense Commissary Agency could easily provide commissary change funds from its revolving fund. Since the Defense Commissary Agency is capable of providing change funds through its revolving fund, the practice of providing such funds should be discontinued.

Using prevailing interest rates of 5.3 percent, we estimate the annual interest expense incurred by the U.S. Government to be $233,000. That figure is higher than the DFAS estimate, in its memorandum of June 1994, because of recent increases in interest rates. If the described practice is not discontinued, the U.S. Treasury will incur additional unnecessary interest expenses of $1.4 million during the next 6 years.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Finance and Accounting Service, withdraw change funds amounting to $4.4 million held by the Defense Commissary Agency for deposit to the U.S. Treasury.

DFAS Comments. The Deputy Director for Finance, DFAS, concurred with the recommendation and stated that on August 16, 1994, all Defense Finance and Accounting Service Center Directors were directed to transfer accountability for commissary change funds to the Defense Commissary Agency stock fund accounts. Transfer of accountability occurred on or before September 30, 1994.

Audit Response. Management comments were fully responsive.

2. We recommend that the Director, Defense Finance and Accounting Service, delete the requirement for disbursing officers to provide commissary change funds from DoD Regulation 7000.14-R, volume 5, "Disbursing Policy and Procedures," December 1993.

DFAS Comments. The Deputy Director concurred with the recommendation and stated that changes to DoD Regulation 7000.14-R, volume 5, deleting the requirement for the Defense Finance and Accounting Service to provide commissary change funds have been processed. Follow-up discussions with the Director of the Disbursing Procedures and Guidance Division within the Office of Disbursing Management, Headquarters, Defense Finance and Accounting Service, disclosed that those changes will appear in the next revision to that guidance scheduled for publication in February 1995. Those discussions also disclosed that management agreed with the $1.4 million estimated monetary benefit.

Audit Response. Management comments were fully responsive.

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Part III - Additional Information

Appendix A. Funds Provided to Navy and Marine Corps Exchanges as of May 1994

Disbursing Offices Contacted*	DSSN	Total Accountability	Amount Exchanged
DAO-CL Washington			
Arlington, VA	5101	$30,891,788	$ 0
PSA Washington, DC	5104	95,261	0
Dahlgren, VA	5138	34,257	0
Annapolis, MD	5197	26,099	0
Bethesda, MD	5770	30,377	0
NAVSYSCOM Washington, DC	8404	129,168	0
DAO-CL Great Lakes			
Cleveland, OH	5132	25,877	0
Portsmouth, NH	5200	43,210	0
Cleveland, OH	5203	303,081	0
Great Lakes, IL	5232	14,107	0
PSA Great Lakes, IL	8381	1,111,077	0
DAO-CL Norfolk			
Jacksonville, FL	5146	811,714	535,000
Bayonne, NJ	5164	187,178	0
Bayonne, NJ	5207	1,726,354	0
Yorktown, PA	7346	18,919	0
PSA New London, CT	7734	2,344,733	400,000
Charleston, SC	8347	55,442	0
PSA Norfolk, VA	8371	2,368,140	2,030,000
DFAS-KC			
Cherry Point, NC	5136	42,515	0
Paris Island, SC	5153	14,353	0
Albany, GA	5159	17,174	0
Camp Pendleton, CA	5167	1,050,820	1,000,000
Camp Lejeune, NC	5190	888,986	830,000
Barstow, CA	5199	61,027	0
Camp Butler, Japan	5755	1,150,858	0
Arlington, VA	6091	22,476	0

*See explanation of acronyms at end of appendix.

Appendix A. Funds Provided to Navy and Marine Corps Exchanges as of May 1994

Disbursing Offices Contacted*	DSSN	Total Accountability	Amount Exchanged
Camp Lejeune, NC	6092	$ 304,773	$ 0
Seattle, WA	6096	37,642	0
Kansas City, MO	6102	126,442	0
Kansas City, MO	6102	126,442	0
Quantico, VA	6105	34,914	0
Beaufort, SC	6154	4,281	0
Okinawa, Japan	6160	740,027	0
Yuma, AZ	6168	65,549	50,000
Camp Pendleton, CA	6187	4,792	0
Kaneche Bay, PI	6795	23,376	0
Santa Ana, CA	6796	340,347	0
San Diego, CA	6798	111,632	100,000
Palms, CA	6816	23,000	0
DAO-CL Oakland			
Bremerton, WA	5189	64,995	0
Oakland, CA	5213	2,898,617	0
Oakland, CA	5234	397,699	0
Keyport, WA	7609	15,025	0
Oakland, CA	8350	674,659	0
DAO-CL San Diego			
China Lake, CA	5133	6,821	0
PSA Long Beach, CA	5236	812,142	725,000
San Diego, CA	5242	161,809	0
Silverdale, WA	6133	528,687	0
PSA San Diego, CA	8366	3,790,403	3,575,000
DAO-CL Pensacola			
Corpus Christi, TX	5140	120,285	80,000
PSD Pensacola, FL	5194	1,400,323	1,200,000
Panama City, FL	5244	5,760	0
PSD Dallas, TX	7652	9,534	0
DAO Pensacola, FL	8380	1,152,883	0
DAO-CL Port Hueneme			
Port Hueneme, CA	8352	2,576,325	0
DAO-CL New Orleans			
New Orleans, LA	4663	480,930	405,000
New Orleans, LA	8357	3,889	0

*See explanation of acronyms at end of appendix.

Appendix A. Funds Provided to Navy and Marine Corps Exchanges as of May 1994

Disbursing Offices Contacted*	DSSN	Total Accountability	Amount Exchanged
DAO-CL Honolulu			
PSD Pearl Harbor, HI	6955	$ 947,156	$ 0
Honolulu, HI	8349	1,105,333	0
Honolulu, HI	8349	158,177	0
Totals		**$62,594,218**	**$10,930,000**

Acronyms

DAO-CL	Defense Accounting Office Cleveland Center
DFAS-KC	Defense Finance and Accounting Service Kansas City Center
DSSN	Disbursing Station Symbol Number
NAVSYSCOM	Naval Systems Command
PSA	Personnel Support Activity
PSD	Personnel Support Detachment

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A., B.1., B.2.	Compliance and economy and efficiency. Implementation would ensure compliance with 31 U.S.C. 3302 and reduce funds held outside the Treasury, thus reducing interest expense. All recommendations, if implemented, will correct the internal control weaknesses.	Funds of $2 million put to better use.*

*Potential Monetary Benefit Computations

Amount Held Outside U.S. Treasury	Interest Rate	Days Per Year	No. of Days Held Outside U.S. Treasury	No. of Years	Total Interest Expense
$10,930,000	.053	365	60	6	$0.6 million
4,400,000	.053	365	365	6	$1.4 million
				Total	**$2.0 million**

The potential monetary benefit is based on putting funds to better use that would otherwise have been used to pay interest expenses of $2 million. That figure is determined by multiplying the amount held outside the U.S. Treasury by the prevailing interest rate divided by 365. That figure, the daily interest expense, is then multiplied by the number of days each year that the funds were held outside the U.S. Treasury and by the total number of years projected. Interest expenses were computed using a 5.3% interest rate on U.S. Government bonds and notes maturing in August 1995. For every 0.5% increase in the interest rate, the interest expense will increase $0.2 million. Compounding effects were considered but not calculated because we could not determine the compounding period. Consequently, the simple interest expense calculations represent a conservative estimate.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC

Defense Organizations

Headquarters, Defense Finance and Accounting Service, Washington, DC
- Defense Finance and Accounting Service Center, Cleveland, OH
  - Defense Accounting Office, Arlington, VA
  - Defense Accounting Office, Bayonne, NJ
  - Defense Accounting Office, Charleston, SC
  - Defense Accounting Office, Great Lakes, IL
  - Defense Accounting Office, New London, CN
  - Defense Accounting Office, New Orleans, LA
  - Defense Accounting Office, Norfolk, VA
  - Defense Accounting Office, Oakland, CA
  - Defense Accounting Office, Pearl Harbor, HI
  - Defense Accounting Office, Pensacola, FL
  - Defense Accounting Office, Port Hueneme, CA
  - Defense Accounting Office, San Diego, CA
- Defense Finance and Accounting Service Center, Kansas City, MO
  - Defense Accounting Office, Camp Lejeune, NC
  - Defense Accounting Office, Camp Pendleton, CA

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Commander, Camp Lejeune, North Carolina

Defense Agencies

Director, Defense Commissary Agency
Director, Defense Finance and Accounting Service, Washington, DC

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Part IV - Management Comments

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

NOV 14 1994

DFAS-HQ/F

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, INSPECTOR GENERAL, DOD

SUBJECT: Preparation of Response to DoD(IG) Draft Report, "Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp LeJeune, North Carolina (Project No. 3FGT-2019.12)

Our detailed comments to the information requested on the recommendations in the report are attached.

Michael E. Wilson
Deputy Director for Finance

Attachment:
As stated

Defense Finance and Accounting Service Comments on DoD(IG) Draft Report, "Cash Accountability in the Department of Defense, Disbursing and Carolina" (Project Code 94A-377)

RECOMMENDATION A1: We recommend that the Director, Defense Finance and Service, discontinue providing exchange-for-cash services to Navy and Marine Corps exchanges.

CONCUR/NONCONCUR: Concur. Action completed.

RECOMMENDATION B1: Recommend that the Director, Defense Finance and Accounting Service (DFAS), withdraw change funds amounting to $4.4 million held by the Defense Commissary Agency (DeCA) for deposit to the U.S. Treasury.

CONCUR/NONCONCUR: Concur. A letter dated August 16, 1994, was issued from the DFAS-HQ Deputy Director of Finance to all Center Directors directing that the accountability for all change funds be transferred to the DeCA stock fund accounts to be completed no later than September 30, 1994.

Estimated completion: Action completed.

RECOMMENDATION B2: Recommend deleting the requirement for disbursing officers to provide commissary change funds from the Department of Defense Financial Management Regulation (DoDFMR), Volume 5, "Disbursing Policy and Procedures," December 1993.

CONCUR/NONCONCUR: Concur.

Estimated completion: Appropriate changes have been processed to delete any reference to DFAS providing change funds to the DeCA. The change will appear in the next revision to the DoDFMR, Volume 5.

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INTERNET DOCUMENT INFORMATION FORM

A . Report Title Cash Accountability in the Department of Defense, Disbursing and Change Funds Maintained at Camp LeJeune, NC

B. DATE Report Downloaded From the Internet: 03/02/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date 03/02/99**

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.